

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-08 /019 W
-----081320Z 095033 /40
O R 081220Z FEB 77
FM AMEMBASSY TEHRAN
TO USDOC WASHDC IMMEDIATE
INFO SECSTATE WASHDC 1194

UNCLAS SECTION 1 OF 2 TEHRAN 1281

USDOC FOR BIC/OIM/MRD FROM KLINE

E.O. 11652: NA
TAGS: BBSR, IR
SUBJ: MARKET RESEARCH/SECTORAL SURVEY;

REF: (A) TEHRAN 1069, (B) TEHRAN 321

1. SUMMARY: PROGRESS AS OF FEBRUARY 6 ABOUT 2 WEEKS
BEHIND SCHEDULE WITH MANY PROBLEMS CITED REFTEL A STILL RE-
MAINING. BY FEB 13 ANTICIPATE HAVING 7 OF TOTAL 15 SECTORS
FULLY COMPLETED. CONTRACTOR, HOWEVER, HAS LOST SUPPORT FINANCIAL
BACKER AND FORMALLY INFORMED US FEB 6 THAT FIRM WILL GO BANKRUPT
UNLESS CASH FLOW IMPROVES IMMEDIATELY. HE SEES ONLY SOLUTIONS
AS UPWARD ADJUSTMENT SECTORAL CONTRACT FEE OR DEFAULT, WHICH
WOULD ALLOW HIM ACCEPT LOCAL BUSINESS FOR WHICH PARTIAL FEES
NORMALLY PAID IN ADVANCE. END SUMMARY.

2. DORAN ADVISED ON FEB 6 THAT HIS FINANCIAL BACKER HAD TERMI-
NATED LINE OF CREDIT ON WHICH HE HAS BEEN RELYING TO CARRY
BUSINESS OVER UNTIL COMPLETION OF SECTORAL PROJECT. AT
MEETING ATTENDED BY (FIELD PROJECT MANAGER) KLINE, MRO
FAIRCHILD, DORAN, HIS PARTNER AND FINANCIER ISMAIL GHOBADI,
AND DORAN'S ASSOCIATE DON CROLL, DORAN STATED THAT HIS
ACCOUNTANT NOW ESTIMATED THAT BY MID-MARCH SURVEY WILL HAVE
COST DORAN CLOSE TO 70,000 DOLLARS. ACCORDING TO DORAN, EVEN
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IF HE COMPLETED PROJECT AND RECEIVED FULL PAYMENT ON SCHEDULE
HE WOULD BE UNABLE MEET OBLIGATIONS HE NOW MUST LIQUIDATE
AT END CURRENT IRANIAN FINANCIAL YEAR (MARCH 20, 1977). DORAN
STATED THAT HE MUST EITHER OBTAIN ADDITIONAL FEE FOR SECTORAL
CONTRACT OR DEFAULT, CUT HIS LOSSES ON PROJECT, AND DEVOTE
IMMEDIATE ATTENTION TO OBTAINING LOCAL COMMERCIAL CONTRACTS
FOR WHICH SUBSTANTIAL UP-FRONT PAYMENTS WILL EASE HIS FINAN-

CIAL CRUNCH. FPM REQUESTED DORAN SUBMIT FORMAL WRITTEN STATEMENT HIS POSITION. FOLLOWING SUMMARIZES DORAN LETTER, DATED FEB 6 (COPY AIRMAILED FEB 8):

DORAN REQUESTS ADDITIONAL 12,000 DOLLARS ON CONTRACT, BRINGING TOTAL TO 40,400 DOLLARS, 1) TO RELIEVE CRITICAL CASHFLOW PROBLEMS CAUSED BY EXTENSION OF TIME THAT MSR HAD TO WORK FULL TIME IN MEETING CONTRACT OBLIGATIONS AND ASSOCIATED DELAYS IN RECEIVING PAYMENTS, AND 2) TO PARTIALLY OFFSET ADDITIONAL COSTS THAT HAVE BEEN AND WILL BE INCURRED. COST JUSTIFICATION FOLLOWS:

A) DIFFICULTIES ON PART MSR HAVE RESULTED IN EXTENSION PROJECT BEYOND ORIGINAL FIVE MONTH PERIOD. ASSUMING COMPLETION IN MID-MARCH (COMMENT: WHICH NOW APPEARS REALISTIC DATE) ADDITIONAL OVERHEAD COSTS OF ABOUT 4,000 DOLLARS HAVE BEEN INCURRED.

B) SALARY INCREASES OF ABOUT 33 PERCENT HAVE BEEN REQUIRED DURING COURSE OF CONTRACT AMOUNTING TO ADDITIONAL 7,650 DOLLARS DISBURSED FOR MANPOWER USED DIRECTLY ON PROJECT.

C) EXPENSES FOR TYPING DIRECTLY INCURRED FOR SECTORAL DRAFTS, REDRAFTS AND OTHER CHANGES HAVE RESULTED IN UNPLANNED TYPING COSTS TOTALLING ABOUT 6,500 DOLLARS.

D) RESULTING FROM REVIEW OF FIRST SECTORAL DRAFTS IN OCTOBER, 1976, PERSONNEL CHANGES AND STAFF UPGRADING WERE REQUIRED, INCLUDING HIRING NEW PROFESSIONAL, WHICH RESULTED IN UNANTICIPATED INCREASE DIRECT EXPENSES OF 5,250 DOLLARS.

E) TOTAL AMOUNT UNPLANNED EXPENDITURES 23,400 DOLLARS. INITIAL ESTIMATES BY MSR OF COSTS TO BE INCURRED IN PROJECT WAS 45,000 DOLLARS WITH ANTICIPATED LOSS OF 16,000 DOLLARS. BECAUSE OF ADDITIONAL COSTS, LOSS ON PROJECT WILL ACTUALLY EXCEED 38,000 DOLLARS.

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DOLLARS. DORAN CONCLUDES THAT DUE TO THESE DIFFICULTIES HE CANNOT CONTINUE CONTRACT AS ORIGINALLY SIGNED, AND THEREFORE ASKS FOR ADDITIONAL PAYMENT.

3. DORAN ACKNOWLEDGES THAT HE BID LOW FIGURE ON SECTORAL CONTRACT BECAUSE HE BADLY WANTED JOB AND WAS PREPARED ABSORB CERTAIN EXPENSES AS INVESTMENT IN EXPERIENCE, STAFF BUILDING, CONTACTS AND REPUTATION FOR HIS NEWLY ORGANIZED FIRM. DORAN STATES HE NOW HAVING DIFFICULTY RETAINING KEY STAFF MEMBERS BECAUSE OF FINANCIAL PROBLEMS. HE ADMITS THAT MANY PROBLEMS HAVE BEEN OF HIS OWN MAKING. HOWEVER, HE STATES THAT ADDITIONAL EXPENSES, MANY OF WHICH RESULT FROM UNANTICIPATED COSTS DUE CIRCUMSTANCES BEYOND HIS CONTROL, COMPOUNDED BY LOSS HIS CREDIT SOURCE, MAKE IT IMPOSSIBLE FOR HIM TO CONTINUE. DORAN ALSO STATES THAT THESE POINTS NOT RAISED DURING WHELAN'S JANUARY VISIT BECAUSE HE THEN FELT ASSURED OF FINANCIAL SUPPORT.

4. IT APPEARS THAT AT THIS POINT WE HAVE SEVERAL OPTIONS:

A) WE CAN PERMIT DORAN TO DEFAULT, NEGOTIATE SETTLEMENT, AND

ATTEMPT TO SALVAGE SOMETHING FROM WORK HE HAS ALREADY COMPLETED.
AN ABBREVIATED SURVEY MIGHT BE ASSEMBLED FROM SECTORS ALREADY
COMPLETED; HOWEVER, THIS WOULD FAR FROM FULFILL REQUIREMENTS
AND OBJECTIVES OF THIS PROJECT.

B) ESTIMATE THAT KLINE AND FAIRCHILD COULD PROBABLY COMPLETE
REMAINDER OF SURVEY, PROVIDED THEY HAD ALL OF DORAN'S RECORDS
AND WORK ON PROJECT TO DATE, IN A MINIMUM OF TWO AND ONE-HALF
MONTHS. IF ONE ADDITIONAL MRO AND ADEQUATE CLERICAL STAFF WERE
AVAILABLE, TASK COULD BE COMPLETED SOONER.

C) WERE IT POSSIBLE TO FIND ANOTHER CONTRACTOR TO UNDER-
TAKE COMPLETION OF SURVEY AT A REASONABLE COST, IT IS LIKELY
TO TAKE CONSIDERABLY LONGER, CONSIDERING NEW FIRM WOULD PROBAB-
LY FEEL IT NECESSARY TO VERIFY ALL OF DORAN'S DATA, NOT TO
MENTION PROCESS OF CONTRACTOR EDUCATION.

5. ABOVE ALTERNATIVES WOULD EITHER PRODUCE LESS SATISFACTORY
RESULTS OR REQUIRE MORE FUNDS AND TIME THAN ADJUSTED
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DORAN CONTRACT. DO NOT BELIEVE USDOC REQUIRED BAIL DORAN
OUT OF SITUATION INTO WHICH HE HAS GOTTEN HIMSELF, PRI-
MARILY AS A RESULT OF HIS OWN MIS-JUDGEMENTS. HOWEVER, CON-
SIDERING STAGE AT WHICH PROJECT IS NOW IN, REACHING AGREE-
ABLE SETTLEMENT PERMITTING COMPLETION BY DORAN APPEARS MOST
DESIRABLE ALTERNATIVE. FYI, STATUS REPORT EACH SECTOR AS OF
C.O.B. FEBRUARY 7 FOLLOWS:
A) MEDICAL-COMPLETE:

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-08 /019 W
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O R 081220Z FEB 77
FM AMEMBASSY TEHRAN
TO USDOC WASHDC IMMEDIATE
INFO SECSTATE WASHDC 1195

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USDOC FOR BIC/OIM/MRD FROM KLINE

B) TEXTILES-COMplete;

6. PRINTING-FINAL REVISED AND EDITED DRAFT, BASED ON OUR REVIEW, TO BE SUBMITTED FEBRUARY 8;

D) AGRICULTURE-FINAL REVISED AND EDITED DRAFT, BASED ON OUR REVIEW, SUBMITTED FEBRUARY 6; NEEDS ONLY MINOR EDITORIAL CORRECTIONS FOR COMPLETION;

E) FOOD PROCESSING-FINAL REVISED AND EDITED DRAFT, BASED ON OUR REVIEW, TO BE SUBMITTED FEBRUARY 8,

F) ELECTRIC POWER-FINAL REVISED AND EDITED DRAFT, BASED ON OUR REVIEW, SUBMITTED FEBRUARY 7;

G) GOVERNMENT, BUSINESS AND FINANCIAL-FINAL REVISED DRAFT, BASED ON OUR REVIEW, TO BE SUBMITTED FEBRUARY 8;

H) COMMUNICATIONS-SUBSTANTIALLY DRAFTED AND EDITED, REQUIRES SOME FOLLOW-UP INTERVIEWS;

I) EDUCATION-SUBSTANTIALLY DRAFTED, BUT ADDITIONAL INTERVIEWS REQUIRED;

J) FOREST RESOURCES-INITIAL DRAFT READY FOR EDITING;

K. MINING AND PETROLEUM - INITIAL DRAFT BEING EDITED;

L. TRANSPORTATION - SECTIONS ON 3 SUBSECTORS DRAFTED, MORE INFORMATION ON AVIATION REQUIRED;

M. METALLURGY IMETALWORKING - FURTHER RESEARCH REQUIRED, UNCLASSIFIED

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INITIAL DRAFT STILL INCOMPLETE;

N. CHEMICALS - FURTHER RESEARCH REQUIRED, INITIAL DRAFT STILL INCOMPLETE;

O. CONSTRUCTION - RESEARCH COMPLETE, INITIAL DRAFTING BEGUN.

P. WHILE NO REPEAT NO WORK TO DATE DEVOTED TO OVERVIEW, KLINE AND FAIRCHILD HAVE MARKET PROFILE-SUBSTANTIALLY DRAFTED. HAVE OBTAINED THROUGH USIS, COURTESY OF MINISTRY OF INFORMATION, SELECTION OF PHOTOGRAPHS WHICH WILL MEET MALMOST ALL PHOTOGRAPHIC REQUIREMENTS.

6. IT FPM JUDGEMENT THAT WHILE WE ABOUT TWO WEEKS BEHIND SCHEDULE DORAN SHOULD BE ABLE TO SATISFACTORILY COMPLETE PROJECT. DORAN'S NEW EDITOR, BARBARA BRITT, IS HAVING SUBSTANTIAL POSITIVE IMPACT ON WRITING STYLE AND FORM. EACH REPORT CONTINUES REQUIRE DETAILED REVIEW AND CONSTANT FOLLOW THROUGH IN ORDER INSURE THAT ADDITIONAL RESEARCH AND REVISIONS CARRIED OUT. ANTICIPATE THAT MULTIPLE REVIEW AND RECYCLE PROCESS WILL CONTINUE TO BE REQUIRED ON EACH SECTOR REPORT. BELIEVE, HOWEVER, THAT FINAL PRODUCTS NOW EMERGING ARE GOOD, AND PROSPECTS FOR

FIRST CLASS SURVEY ARE EXCELLENT. REALISTIC REVISED SCHEDULE PROVIDING FOR SLIPPAGE TO DATE AND CONTINGENCIES APPEARS TO BE MID-MARCH, ABOUT 3 WEEKS BEYOND ORIGINAL TARGET DATE.

7. DORAN APPEAR STRONGLY INFLUENCED BY GHOBADI AND CROLL IN TAKING WHAT SEEMS TO BE UNWISE POSITION THAT DEFAULTING AND CUTTING LOSSES PREFERABLE TO CONTRACT COMPLETION ON PRESENT TERMS. IT FPM JUDGMENT THAT DORAN WOULD PERSONALLY PREFER TO COMPLETE JOB. HOWEVER, NOT CERTAIN OF CONSTRAINTS ON HIS NEGOTIATION FLEXIBILITY. ALTHOUGH HAVE NOT HAD ACCESS TO HIS BOOKS, BELIEVE HIS STATEMENT OF EXPENSES NOT UNREALISTIC. HOWEVER, THERE SOME QUESTION AS TO WHETHER ALL OF CLAIMED ADDED COSTS CAN BE ATTRIBUTED SOLELY TO SECTORAL PROJECT. IN HIS FAVOR, NOTE DORAN UNCLASSIFIED

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ORDERED IBM MAG-CARD TYPEWRITER IN NOVEMBER IN ANTICIPATION FINAL REPORT PREPARATION, BUT IBM UNABLE DELIVER PRIOR APRIL 1977. SECRETARIES NOW DRAW SALARY OF \$1000/MO.; RESEARCH ASSISTANTS MORE. RENT FOR OFFICE SPACE COMPARABLE TO DORAN'S IS \$2,000/MO.; ALTHOUGH DORAN OCCUPIES FLOOR OF BUILDING USED BY GHOBADI AND WE DO NOT KNOW WHAT ARRANGEMENTS THEY HAVE ON RENT. DORAN EMPLOYED ONE "PROFESSIONAL EDITOR" AT \$150/DAY, WHILE HIGHLY EFFECTIVE CURRENT INCUMBENT RECEIVES \$75/DAY. FOR COMPARISON, TRADE CENTER PERSONNEL COSTS INCREASED BY OVER 30 PERCENT DURING PAST YEAR. NOTE THAT EVEN WITH FULL REQUESTED ADJUSTMENT, DORAN'S TOTAL FEE WOULD REMAIN SUBSTANTIALLY BELOW NEXT LOWEST BID RECEIVED AT TIME OF INITIAL BID REQUEST DURING SPRING 1976. ALSO NOTE THAT EXPERIENCE WITH INDONESIA PROJECT, AND NOW IN IRAN, SEEM TO INDICATE THAT CONTRACTORS EXPERIENCING CONSIDERABLE DIFFICULTY IN ASSEMBLING RESOURCES NECESSARY TO PROVIDE REPORTS OF SUBSTANCE, DEPTH AND PRESENTATION QUALITY WHICH WE REQUIRE AT LOW END OF PRICE RANGE WE HAVE BEEN CONSIDERING. CONSEQUENTLY RECOMMEND USDOC FAVORABLY CONSIDER DORAN'S REQUEST AND MAKE BEST POSSIBLE COUNTER-OFFER.

8. BELIEVE AMENDMENT TO CONTRACT PRICE JUSTIFIED ON BASIS 1) THAT IT IS TO BENEFIT GOVERNMENT, AND 2) BECAUSE CONTRACTOR HAS ENCOUNTERED INCREASED COSTS, UNANTICIPATED AT TIME OF CONTRACT BID AND, TO A SUBSTANTIAL DEGREE, DUE TO CIRCUMSTANCES BEYOND HIS CONTROL. DORAN HAS AGREED IN PRINCIPLE TO INCLUSION OF PERFORMANCE PENALTY CLAUSE FOR FURTHER DELAYS IN COMPLETION OF CONTRACT. RECOMMEND THAT A PENALTY CLAUSE BE INCORPORATED ASSESSING HIM THE SUM OF \$1,000 FOR EACH WEEK BEYOND MARCH 20, 1977 WHICH IS REQUIRED FOR COMPLETION OF ALL WORK ON THE SECTORAL SURVEY INCLUDING "OVERVIEW". DORAN HAS AGREED CONTINUE WORK OF PROJECT THROUGH FEBRUARY 13 PENDING AGREEMENT ON CONTRACT AMENDMENT OR DECISION TO NEGOTIATE DEFAULT SETTLEMENT ON BASIS OF WORK COMPLETED TO DATE.

9. ACTION REQUESTED:

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A. PLEASE ADVISE PRIORITY IF USDOC WILLING AMEND CONTRACT
UNDER ABOVE DESCRIBED CIRCUMSTANCES TO COVER EXTENSION UNTIL
MARCH 20 AND INCREASED CONTRACTOR FEE.

B. PLEASE INITIATE ACTION TO EXTEND ORDERS OF FPM KLINE.
SUCH EXTENSION, TO COVER CONTINGENCIES, SHOULD BE THROUGH MARCH
31, ALTHOUGH WILL MAKE EFFORT TO COMPLETE PROJECT
PRIOR TO MARCH 20 DEADLINE.
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Message Attributes

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